



COUNCIL AGENDA: 08-16-05
ITEM: 4.3

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: San José Medical Center
Request for Qualifications and
Recommended Next Steps

DATE: July 15, 2005

Approved

Date

July 15, 2005

RECOMMENDATION

Accept the Staff report and provide direction to Staff to either:

- 1) proceed with negotiations with the Gardner Family Health Network and Cornerstone Affiliates/Greystone Communities/American Baptist Homes of the West to create a joint development plan for a facility providing comprehensive outpatient health services and a state of the art continuing care retirement community; or
- 2) to immediately prepare a work plan for a stakeholder based community planning process for the San José Medical Center site and surrounding properties on East Santa Clara Street to be brought back to City Council for approval in ninety days.

BACKGROUND

On December 9, 2004, the Hospital Corporation of America (HCA) closed the San José Medical Center (SJMC) resulting in the loss of health care services to residents and workers of downtown San José. Prior to this closure, the San José City Council and the Santa Clara County Board of Supervisors jointly funded a health care study, completed in November 2004, to investigate the impacts of the closure of SJMC. The Save San José Medical Center Coalition, a community group committed to ensuring adequate health care services for downtown residents since 1999, strongly supported the City and County in commissioning this study. The study demonstrated the acute need for health care services and facilities in downtown San José. In response to the study and community concern, the City Council approved issuance of a Request for Qualifications (RFQ) with Business Terms to determine the viability of the reuse of the San José Medical Center site for medical and health care related services.

RFQ Outreach - The City released the RFQ on March 2, 2005. At that time, the City provided the RFQ to known stakeholders and interested organizations, and posted the RFQ on the websites of the City, the Redevelopment Agency, the Office of Economic Development and the City's Bid Line. It was also publicized online through the City's Demand Star program,

broadcasting the opportunity and a downloadable RFQ to numerous medical and health care providers. The City Manager's Office and the Agency coordinated to distribute a special RFQ flier in an Agency newsletter that reached over 130 medical and health care related businesses in the East Santa Clara Business District. Outreach efforts extended to regional and out-of-state contacts, and involved paid, discounted and donated advertisement space in both print and electronic media. In collaboration with the Agency, funding was secured for ads with the Mercury News, the Silicon Valley Business Journal and its special Bioscience and Health Care magazine edition, the Urgent Care Association of America and Nurseuniverse.com. Additionally, the City initiated numerous direct staff contacts with a variety of hospital and health care organizations, health advocacy groups, health care publications, colleges, universities, foundations, real estate developers, bioscience companies and venture firms. Throughout this process, the City maintained regular communication with members of the Save San José Medical Center Coalition regarding the RFQ outreach progress.

Facility Update - It should be noted that the closure study discusses the need for a downtown hospital by the year 2020 unless existing hospitals expand and increase the availability of beds. The nearest hospitals to the SJMC site and those included in the closure study are O'Connor Hospital, Santa Clara Valley Medical Center and Regional Medical Center. Since the release of the closure study and the closure of SJMC, the hospitals have undergone expansion.

O'Connor's expansion has been sizeable and the most immediate. In April 2005 the capacity of the ER nearly doubled from 11 to 21 beds. This enables physicians to treat non-emergency, urgent care patients in a separate 'fast track' program while emergent, critical care patients continue to receive priority care in the ER. Moreover, O'Connor has an additional 48 inpatient hospital beds now available: a unit of 24 to accommodate the increased volume of mothers requiring obstetric care and a unit of 24 for 'progressive care,' or specialized cardiac care just below the ICU level. Additionally, O'Connor will have capacity for 48 more medical/surgical general-acute-care beds (inpatient care) within the next year: a unit of 24 beds currently awaits approval from the Office of Statewide Health Planning and Development, and by spring 2006, another unit of 24 beds will be licensed as well. According to the hospital's master facilities plan, within the next five years an O'Connor Pavilion for outpatient surgery and services as well as a new O'Connor Tower for inpatient care will be under construction.

Both Valley and Regional also have major hospital renovations and expansions currently underway. While Valley's campus construction plans are related to a specialty center for outpatient care, County Health and Hospital System officials indicate that plans are on the horizon to (i) increase the number of beds for inpatient hospital care and (ii) complete seismic upgrades as required by law. Officials emphasized that these two priorities will lead VMC's construction plans over the next ten years, although formal timelines have yet to be established. Regional's expansion project is also in the preliminary stages. An RMC official indicated this project would likely include 10 new ICU beds, a 120,000 square feet medical office building, 3 new endoscopy suites, 3 new operating suites, a new cath lab, and increased space and new rooms in a remodeled ER/Trauma Center. Indeed, Regional obtained certification as a Trauma Center in June 2005. RMC's inclusion in the local EMS deployment routes is now official, and the newly constructed helipad awaits final County and FHA approval.

ANALYSIS

The City began an analysis of the responses to the RFQ following the May 18, 2005 deadline for submittals, with key dates identified in Table 1 below.

Project Milestones	Completion Date
Issue Request for Qualifications	March 2, 2005
Pre-Submittal Meeting	April 4, 2005
Submittals to RFQ Due	May 18, 2005
Review of Submittals/Interview Selections	May 25, 2005
Oral Interviews	May 31, 2005
RFQ Panel Reviews and SJMC Perimeter Tour with Panel	July 8, 2005
Release of Staff Recommendation to all Respondents and Public	July 15, 2005
City Council Review	August 16, 2005
Reference Checks and Preliminary Financial Analyses	TBD

An RFQ Evaluation Panel reviewed the submittals, with access to a support team of City staff and external advisors for additional resources as needed. The City Manager's Office selected the Evaluation Panel members, utilizing a combination of internal and external evaluators to ensure that the Panel offered an appropriate knowledge base, a variety of skill-sets and unbiased representation. The evaluation team consisted of four City staff members from the Office of Economic Development, the Redevelopment Agency and the City Manager's Office, one external former private and public hospital administrator, one external independent health care consultant and an external community member with labor affiliation. All evaluators were required to sign conflict of interest forms. External evaluators also signed Volunteer Evaluator Agreements to ensure the confidentiality of the RFQ evaluation process. Attachment A provides the qualifications of the individuals comprising the Evaluation Panel. A support team of City staff and external advisors was formed to provide specific expertise in the event the core evaluation team required additional resources.

The RFQ provided for a Pre-Submittal meeting for the purpose of allowing interested parties an opportunity to ask questions and seek clarification on the RFQ process. The following seven health care organizations attended the Pre-Submittal meeting: California Endocurietherapy Medical Corporation, Gardner Family Health Network, Kindred Healthcare, San José Heart Institute, Sutter Health, Hospital Corporation of America - Regional Medical Center and Santa Clara Valley Health and Hospital System – Valley Medical Center. Individuals representing community interests, academic institutions and the development community also attended the Pre-Submittal meeting.

The City received five (5) formal responses to the RFQ by the May 18, 2005 deadline. The Santa Clara Valley Health and Hospital System (County) also sent a one-page letter in response to the RFQ. Entities submitting formal responses to the RFQ included:

- 1) Silicon Valley Christian Health Alliance
- 2) Barry Swenson/Imperial Investment and Development/Western Pacific Properties
- 3) Gardner Family Health Network
- 4) Friends & Neighbors of the Hospital Properties
- 5) Cornerstone Affiliates/Greystone Communities/American Baptist Homes of the West.

The County's one page letter in response to the RFQ described their expansion of services at Valley Medical Center in order to fill the gap in services for residents affected by the closure of San José Medical Center. The County acknowledged the closure study recommendation for Valley Medical Center to establish a VHC-Downtown, however the County expressed their inability to finance this undertaking alone. The County letter proposed a joint venture between the City and the County in which the City would provide a site for a VHC-Downtown and construct/provide clinic space. The County proposed to undertake the operation of the facility and offer ambulatory care services.

The evaluation team determined that the County's response to the RFQ, a one page letter, would not be considered a formal response because it lacked the basic elements required by the RFQ such as detailed business terms, qualifications or financial capacity. However, given the County's role in the region to provide medical services to the underserved community, the team decided that a meeting should be scheduled to discuss the County clinic model.

It should be noted that two entities, Anderson Brulé Architects and Dr. Ngai X. Nguyen, M.D. of the East Santa Clara Business District, filed official decline letters with the City. While Anderson Brulé Architects decided not to submit qualifications in response to the RFQ, they did express interest in collaborating on future developments of the project. Dr. Ngai X. Nguyen assembled a group of doctors and investors to create the San José Heart Institute, Inc., a potential specialty hospital with ancillary services to be located on the SJMC site. However, the letter filed with the City cited two challenges that precluded their ability to move forward with a submittal to the RFQ: a) HCA indicated an unwillingness to sell the property to them, considering their idea to be potential competition, and b) Congress, originally under the Medicare Modernization Act of 2003, recently extended a moratorium on the 'ability of physicians to refer Medicare patients to certain specialty hospitals in which [such physicians] have an interest,' i.e. the San José Heart Institute, Inc. Subsequent to the evaluation process, Paul Krutko received a letter from Western Pacific Properties indicating that Dr. Ngai X. Nguyen had joined Barry Swenson/Imperial Investment and Development/Western Pacific Properties as the proposed provider of the team's urgent care center.

Phase I Evaluation: Minimum Qualification Requirements

The initial evaluation was a pass/fail assessment of each submittal to ensure that the responding entity possessed the minimum qualifications and expertise to be successful as defined by the evaluation criteria in the RFQ document. The evaluation team also evaluated the submittals based on the City Council's direction that the site be utilized for medical and health care related services. The Phase I evaluation resulted in the selection of Cornerstone Affiliates/Greystone Communities, Inc./American Baptist Homes of the West and Gardner Family Health Network to proceed to the interview phase. The decision to interview these two entities, and not the others, was based on the following analysis:

Friends and Neighbors of the Hospital Properties

The evaluation team determined that the response from Friends and Neighbors of the Hospital Properties constituted a vision for community and academic partnerships on the site, more so than a response demonstrating qualifications for a specific use of the site. The proposal provided ideas for partnerships with City College/Evergreen Valley College and the Roosevelt Park Community Center. While the evaluation team decided not to interview Friends and Neighbors of the Hospital Properties, the evaluation team committed to taking into consideration the suggestions and information included in the response both in the evaluation process and in its recommendation to the City Council.

Silicon Valley Christian Health Alliance (SVCHA)

The response from the Silicon Valley Christian Health Alliance (SVCHA) met the evaluation criteria that submittals provide qualifications for medical and health care related services on the SJMC site. The SVCHA response also proposed to provide health services to the indigent and homeless populations of downtown, a group the closure study indicated would be most impacted by the closure of the San José Medical Center. However, the evaluation team determined that SVCHA's submittal did not provide adequate financial capacity or proven track record. The SVCHA first began operating in June 2004. SVCHA's submittal proposed the operation of a clinic staffed by one full time physician, a part time administrative staff and volunteers. SVCHA's projected annual income depended primarily on a \$25 patient fee. The evaluation team agreed that these projected revenues seemed unrealistic given the targeted segment of the population and the high percentage of missed appointments. SVCHA also indicated that significant financial support would come from local churches and 'special appeals.' However, the submittal contained neither letters of commitment from any church nor a description of what the 'special appeals' would entail. In conclusion, the evaluation team determined that this use would be too small for the 13.47-acre site and while a partnership with a clinic or other medical facility might later incorporate services such as those offered by the SVCHA, the capacity of their proposal did not adequately meet the criteria described in the RFQ. The team decided not to interview SVCHA based on the combination of these factors.

Barry Swenson/Imperial Investment and Development/Western Pacific Properties (Swenson)

The evaluation team determined that the Swenson proposal did not meet the criteria described in the RFQ. While the proposal introduced a small health care component, the response proposed to utilize the majority of the site for market rate housing. Given the City Council's direction to identify medical and health related uses for the site, the Swenson proposal could not be considered. It was also noted that given the large number of housing developers active in San José, many more proposals would have been received if that had been the thrust of the RFQ.

Gardner Family Health Network (Gardner)

Gardner's response proposed 22,000 square feet of clinic space on the San José Medical Center site. The market currently utilizing Gardner's clinics are residents who are below 200 percent of the federal poverty level, migrant and seasonal farm workers, uninsured persons of all income levels, insured persons who face access barriers and any sector of the population that has special

health care needs. The response involved the construction of a new facility that would provide outpatient care: adult medicine, obstetrics and gynecology, pediatrics, optometry, dentistry, laboratory and pharmacy. Per a Memorandum of Agreement with the County, Gardner patients requiring inpatient care or specialty services are referred to Valley Medical Center.

The evaluation team chose to interview Gardner because of their strong track record in the medical community, their commitment to medically underserved populations and the viable clinic model proposed in their response. While Gardner's response presented their concerns with financing the construction of a new clinic and the acquisition of the land, the evaluation team further probed Gardner's financial capacity and willingness to partner with other organizations in the interview phase.

Cornerstone Affiliates/Greystone Communities, Inc./America Baptist Homes of the West
(Cornerstone Affiliates)

The submittal from Cornerstone Affiliates proposed a partnership with Greystone Communities, Inc. to build a state-of-the-art continuing care retirement community (CCRC) on the SJMC site. CCRCs are senior living communities that offer retirees a comprehensive array of housing and health care services, from independent living to assisted living and memory support to skilled nursing care, as their health care needs change. Cornerstone is a California tax-exempt nonprofit public benefit corporation and parent to the American Baptist Homes of the West, which owns and operates more than 30 senior housing communities in California and other Western states. Greystone is a Texas-based senior living developer.

Based on the initial high-level market and financial analysis, Cornerstone Affiliates indicated in their proposal that the immediate market area surrounding the San José Medical Center site could potentially support a CCRC with the following project scope: 225 to 275 independent living apartments; 40 to 50 assisted living units; 15 to 20 memory support suites; and 35 to 45 skilled nursing beds. The Cornerstone Affiliates proposal also described their intent that the project be structured and priced to be in-line with current residential and healthcare living options in the San José area, yet remain affordable to the greatest number of seniors possible, while still resulting in a financially viable project that addresses the community's needs.

The evaluation team chose to interview Cornerstone Affiliates because of the viability of their financial and business terms, the potential for Cornerstone Affiliates to finance a clinic on the property and the economic development benefits of their proposed project. The evaluation team determined that a continuing care retirement community constitutes a health care related use of the site. While the team recognized that Cornerstone Affiliates' proposal lacked the primary care or clinic component as well as an affordable and/or subsidized housing option, the team decided to address such possibilities in the interview.

Phase II Evaluation: Oral Interviews

The two entities selected for oral interviews were invited to discuss their responses with the evaluation team on May 31, 2005. These structured interviews provided the City with an opportunity to fully understand the ability of the respondents to implement their proposed use for

the SJMC site. The evaluation team also wanted to explore the potential for Gardner and Cornerstone to partner on the SJMC site.

Cornerstone Affiliates/Greystone Communities, Inc./America Baptist Homes of the West (Cornerstone Affiliates)

The evaluation team interviewed executives from Cornerstone Affiliates. The executives presented their general plan for constructing a continuing care retirement community on the SJMC site and provided data to support their assessment that downtown San José offers an exceptionally strong market for senior continuing care communities. The executives also provided greater detail to the financing model. The project would be financed with non-rated, tax-exempt revenue bonds. As is common practice for this entity, Cornerstone Affiliates would obtain sixty to seventy percent advanced sales on the units in order to lower the debt load of the community. Cornerstone Affiliates executives were positively responsive to providing affordable living units in the community, as well as increasing the project density to preserve site acreage for other related uses. Cornerstone Affiliates executives also reacted positively to the suggestion of sharing the SJMC site with a clinic and agreed to consider the possibility of subsidizing its construction. The executives expressed that from a project finance point of view, it would be easier for the clinic to be operated and financed separately. Nonetheless, they understand the City and community's priority to see a health care facility on the site and would be amenable to considering alternatives to assist with the clinic component. Cornerstone Affiliates have built and currently operate CCRCs in Los Gatos, Oakland and Carmel Valley, California. Cornerstone Affiliates also indicated experience in the acquisition of 'troubled sites,' including former hospital properties, and converting them into CCRCs.

Gardner Family Health Network (Gardner)

The interview with Gardner's CEO and CIO resulted in a better understanding of Gardner's capacity to finance a clinic on the SJMC site. Gardner indicated a specific interest in relocating the St. James Health Center, located on 55 East Julian Street, to the SJMC site. Gardner currently owns and operates this facility, but has increasing parking and access issues. Gardner executives indicated that 2-3 acres for a clinic and parking would be more than sufficient, and that it would benefit both their organization and their patients to sell the St. James site and relocate to a new or existing facility on the SJMC property. At the time of the interview, Gardner had not engaged in a formal SJMC site visit with building walk-throughs. However, Gardner executives indicated a preliminary interest in either the Medical Office Plaza at 75 E. Santa Clara Street or the building directly behind the Medical Office Plaza on St. John Street. In their estimation, either of these buildings seems to offer solid potential for conversion into a health center.

Gardner expressed interest in partnering with another entity able to assist them in securing a clinic space on the SJMC site. Although Gardner has insufficient funding to acquire the land, they do qualify for significant state and federal monies and remain eligible to apply for infrastructure grants from various foundations. Gardner gave a positive reaction to the potential for providing specialized care to seniors, as it relates to the possibility of a continuing care retirement community sharing the SJMC site. Gardner also reacted positively to the suggestion to provide a clinic offering services for the underserved with ambiance attractive to all members of the surrounding community. They indicated that while lower-income residents utilize their

network of clinics primarily, their clinics are appealing, regularly updated, exceed industry standards, and will be debt-free this year.

Additional Research: Discussion with County

The Evaluation Panel also met with staff of the Santa Clara County Valley Health and Hospital System to explore their health clinic model and, as the primary health care provider for low-income, underinsured and uninsured families in the area, to better understand the County's current perspective regarding the reuse of the SJMC site and associated community impacts.

Bob Sillen, Executive Director of the Santa Clara County Valley Health and Hospital System, advised the Evaluation Panel that the County would operate a VMC-Downtown on the site if the City would acquire the land from HCA and finance the construction of the medical center. Mr. Sillen stated that a VMC-Downtown is fourth priority behind the County's plan to implement clinics in Milpitas, Sunnyvale and Gilroy. He also gave a positive assessment of the County's current partnerships with Gardner Family Health Network. County staff suggested it would be possible to expand their partnership with Gardner, provisioning physician personnel and taking referrals at VMC, in the event that Gardner began operating a clinic on the SJMC site.

Phase III: Reference checks

Based on the evaluation and recommendation contained in this memo, City staff will proceed with reference checks and financial analyses of Gardner Family Health Network and the Cornerstone consortium prior to City Council consideration on August 16, 2005.

EVALUATION AND RECOMMENDATION

The results of the RFQ process lead to the following conclusions and recommendation by the Evaluation Panel:

- 1) A significant outreach effort to a broad range of health care providers did not generate any response to develop a health care facility at the scale or size of the former San José Medical Center.
- 2) Proposals were received that would create a "clinic" type of facility that would use a small portion of the 13 acre site (between 2-4 acres). These proposals would require significant external capital for site acquisition and construction of the facility.
- 3) Two proposals were received that would utilize the entire site with the majority of the property devoted to housing uses. The Swenson response proposed market rate housing and was therefore deemed non-responsive. Cornerstone Affiliates proposed a continuing care residential community of limited density. However, during the interview Cornerstone Affiliates indicated that a higher density product, using less land, was possible.
- 4) The County's letter outlined a concept for the development of a Valley Medical Center facility that would require the City to acquire the necessary land from HCA and to finance the construction. At present, the operating funds for this new downtown facility are viewed as the fourth priority on the County's schedule for new clinic development.

In addition, the health care environment has not remained static and other hospital facilities are moving forward with expansion plans. The closure study projected a need for a downtown hospital by the year 2020 unless existing hospitals expand and increase the availability of beds. To preserve the site for this eventuality to the year 2020 or more would require that either the City acquire the site through direct negotiations or by eminent domain from HCA and hold the property for an indefinite period of time. The Redevelopment Agency had an appraisal prepared by Carnegie-Blum and Partners that established a land valuation of \$36,055,000 for the 13.47 acres or \$61.45 per square foot. Demolition of existing structures would be an additional one-time cost plus the on-going costs for security and insurance for any interim use. An alternative would be to retain the current zoning for the site. The property would remain vacant until HCA or another healthcare entity came forward with a hospital development plan at an undetermined point in the future. The underutilization of the site, by preserving it for a future hospital either by acquisition or zoning, represents a significant loss of revenue to the City in terms of potential property and sales taxes and ties up significant capital that HCA could potentially put to work serving the needs of the greater San José community.

In the alternative, a redevelopment plan for the site that would involve the inclusion of a comprehensive outpatient health services facility, would also potentially create new housing and commercial development, jobs and new revenues that could be used at a later date to acquire a site for a future downtown hospital if it proved necessary to construct one. The Evaluation Panel does believe that the proposal made by Gardner Family Health Network for a clinic is responsive to the RFQ and should be considered as a part of a future redevelopment plan. The Evaluation Panel also believes that the Cornerstone proposal is also responsive to the RFQ in that a continuing care retirement community constitutes a health care related use of the site.

Based on this analysis, it is the recommendation of the Evaluation Panel, that the City proceed in one of two ways:

- 1) proceed with negotiations with the Gardner Family Health Network and Cornerstone Affiliates/Greystone Communities/American Baptist Homes of the West to create a joint development plan for a facility providing comprehensive outpatient health services and a state of the art continuing care retirement community; or
- 2) terminate the current RFQ process and immediately begin, with all appropriate stakeholders, a comprehensive community planning process for the entire site of the former San José Medical Center and adjacent properties on East Santa Clara Street that had associated medical uses. This stakeholder based community planning process would result in a consensus land use plan to be approved by City Council with associated general plan amendments and zoning changes creating the entitlements for the redevelopment of the site by HCA or whomever might acquire the site. This process would be managed by the City Manager's Office in coordination with Vice-Mayor Chavez and include all stakeholders. A minimum requirement of any plan that emerges from this process is that it includes comprehensive outpatient health services to meet the basic health care needs of the surrounding neighborhoods.

PUBLIC OUTREACH

The City determined that the integrity of the process would be best maintained by a confidential, internal City evaluation. For this reason, the content of the responses to the RFQ were not released until the RFQ Evaluation Panel had sufficient time to assemble their findings and release the staff report.



Paul Krutko

Director, Office of Economic Development



Attachment A
Evaluation Panel Qualifications

City Staff Evaluators		
Name	City Department	Position
Paul Krutko	Office of Economic Development	Director
John Weis	San Jose Redevelopment Agency	Deputy Executive Director
Kelly Spivey	City Manager's Office	Management Fellow
Elisa Echeverria	City Manager's Office	Management Fellow

External Evaluators	
Name	Qualifications
Howard Classen	Mr. Classen was the Executive Officer of the Natividad Medical Center in Salinas, CA from 1992 to 2001 where he was administratively responsible for planning, directing and operating public regional teaching hospital with a \$100+ million annual budget. From 1988 to 1992, Mr. Classen worked as a healthcare consultant, providing professional consultation to a variety of clients, including Merced County and Catholic Health Care West in the Sacramento area. Mr. Classen performed Chief Executive Officer duties for National Medical Enterprises (currently TENET, Inc.) from 1977-1988. From 1973 to 1977, Mr. Classen held the Assistant Administrator and Administrator positions at San Mateo County General Hospital. Mr. Classen is currently retired from acute care hospital administration as of February 1, 2001.
Margaret Spak	Ms. Spak is an independent health care management consultant with thirty years' experience in health services planning and management. She has provided technical assistance to a wide variety of health care organizations including prepaid health plans, community health centers, county hospitals and health departments, and university medical centers. She has worked most extensively with non-profit organizations that are committed to serving the needs of the uninsured, working poor, and Medi-Cal eligible populations throughout California.
Bob Brownstein	Mr. Brownstein is the Policy and Research Director for Working Partnerships USA, a unique collaboration among labor unions, religious groups, educators and other community-based organizations that crafts innovative solutions to the widening gap between Silicon Valley's prosperous employers and the well being of much of the region's workforce.